

Message Text

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 9875

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E.O. 11652: N/A

TAGS: BEXP, ENRG, PE

SUBJECT: FINANCING FOR TRANS-ANDEAN PIPELINE

REF: STATE 083547, LIMA 1896, 1846

1. GOP HAS NOT MADE ANY FINAL DECISION ON HOW TO FINANCE PIPELINE, BUT NOW HAS UNDER CONSIDERATION THE IDEA FOR A NEW GLOBAL FINANCING PACKAGE PRESENTED BY WALTER JOHNSON, MANAGER OF FIRST NATIONAL CITY BANK (FNCB) IN LIMA. FNCB HAS DISCUSSED SUCH A PROPOSAL WITH COFIDE AND WAS INFORMED COFIDE VERY INTERESTED AND MAY ASK FOR 4-6 WEEK STUDY OF PROSPECTS FOR FINANCING AS EARLY AS MID-MAY, WHEN COFIDE OFFICIAL WHO PRESENTLY TOURING MIDDLE EAST WITH MINISTER OF MINES FERNANDEZ MALDONADO (SEE LIMA 3073) RETURNS TO LIMA. COFIDE OFFICIAL WILL ALSO VISIT TOKYO TO SOUND OUT JAPANESE "ONE LAST TIME" ABOUT THEIR INTEREST IN UNDERWRITING CONSTRUCTION OF THE PIPELINE.

2. IT APPEARS NO DECISION ON FINANCING WILL THEREFORE BE MADE PRIOR TO MID-JUNE AT THE EARLIEST, EVEN IF JAPANESE RESPOND FAVORABLY, WHICH IS CONSIDERED UNLIKELY. GOP ALLEGEDLY VERY CONCERNED ABOUT HIGH COMMERCIAL RATES WHICH PERU MUST PAY TO OBTAIN CREDIT AND IS THEREFORE INTERESTED IN OBTAINING CONCESSIONAL FINANCING FOR AT LEAST PART OF

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PROJECT. BANK OF AMERICA MANAGER HAS INFORMED US IN THIS

REGARD THAT HIS BANK RECENTLY ATTEMPTED OBTAIN \$90 MILLION LOAN FOR PERU ON A PROJECT UNRELATED TO PIPELINE, BUT THAT PERU REJECTED INTEREST RATE OFFERED OF 1.25 PERCENT OVER LIBO. BANK OF AMERICA HAS THEREFORE ABANDONED POTENTIAL GLOBAL FINANCING EFFORTS (LIMA 1846) AND IT APPEARS FNCB HAS MOVED IN, USING IDEA OF SOME CONCESSIONAL RATES AND ALSO POSSIBILITY OF LOAN WHICH WOULD BE SELF-AMORTIZING ON BASIS FEES FOR PIPELINE USE.

3. REGARDING PRESENT LOANS, EXIM BANK MAY WISH TO TAKE INTO CONSIDERATION THAT A) ALTHOUGH GLOBAL PACKAGE IS DEFINITELY MORE ADVANTAGEOUS TO ALL PARTIES, THERE IS NO ASSURANCE SUCH A PACKAGE WILL BE FORTHCOMING, AND THEREFORE B) PIECEMEAL FINANCING, AS IS CURRENTLY ONLY FEASIBLE ALTERNATIVE TO LOSING THESE CONTRACTS ALBEIT FOR RELATIVELY MINOR AMOUNTS. WE PRESUME THAT SEPARATE LOANS COULD BE SUBSUMED IN A LATER GLOBAL PACKAGE.

4. IN REGARD TO QUESTIONS PARAGRAPH 2 STATE TEL, IT CLEAR THAT EXIM FINANCING COULD NOT COVER TOTAL IMPORT COSTS SINCE PIPE WILL BE FURNISHED BY THE JAPANESE AND THE GERMANS, AND OTHER EQUIPMENT TO BE SUPPLIED BY BRITISH FIRMS, SEE LIMA 1726. RELATED TO FOREGOING, OF COURSE, IS CHOICE OF PIPELINE CONSTRUCTION CONTRACTOR(S) WHICH COULD INCLUDE ANY OR ALL OF THREE POTENTIAL U.S. COMPANIES. IT APPEARS CHOICE MAY BE MADE BY END OF MAY NOW, ALTHOUGH THIS, TOO, COULD DEPEND ON RESULTS OF ABOVE-MENTIONED TRIP. EMBASSY ENDEAVORING OBTAIN INFORMATION RE NON-U.S. SUPPLIER COMPETITION.

5. ALTHOUGH EMBASSY HAS NOT VERIFIED LEGAL IMPLICATIONS OF NUMEROUS DECREE LAWS RELATING TO PIPELINE PROJECT, FCNB MANAGER BELIEVES THAT LANGUAGE IN LAWS CLEARLY IMPLIES FULL FAITH AND CREDIT OF GOP BEHIND ANY OBLIGATIONS FOR EXTERNAL FINANCING FOR PIPELINE. FURTHER, EMBASSY FORESEES NO MAJOR DIFFICULTIES IN OBTAINING SEPARATE STATEMENT FROM MINISTRY OF FINANCE IF REQUIRED SIMILAR TO ARRANGEMENTS WORKED OUT FOR CUAJONE (LIMA 2854).

6. WALTER JOHNSON PLANS TRAVEL TO U.S. THIS WEEKEND AND WILL TELEPHONE EXIM BANK ON TUESDAY, APRIL 30, TO DISCUSS FOREGOING LIMITED OFFICIAL USE

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IN GREATER DETAIL.
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